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14 April 1983

Memorandum for: Mr. Henry Nau
NSC Staff

In response to your request of 8 April,
we are forwarding the attached paper on
EC and US import ties with LDCs. I hope
you will find it useful background for your
discussions with other Summit country
representatives in Williamsburg this weekend.

STAT

Attachment:
As stated



Director,

E U R A

Office of European Analysis
EUR M 83-10016

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

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15 April 1983

EC and US: Import Ties with LDCs

Summary

EC and US non-energy imports from LDCs increased sharply during the past decade. By 1981, these imports reached about \$50 billion each for the European Community and the United States. The composition of these imports differs, however, between the Community and the US. The EC imports mostly agricultural commodities and raw materials, while the US purchases mainly manufactured goods. Moreover, the regional breakout of these imports varies; the EC imports more from the poorer LDCs, while the US purchases come largely from the newly industrialized countries (NICs). The Community's trading pattern with LDCs has developed, in part, because of the special treatment it gives former colonies of EC members. The EC's trade agreement with 63 African, Caribbean, and Pacific countries -- the Lomé Convention -- provides duty-free access for all manufactured products and most agricultural goods. The United States, on the other hand, through its Generalized System of Preferences, does not discriminate between LDCs unless they are ruled ineligible to receive preferential treatment under the 1974 Trade Act.

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This memorandum was prepared of the Office of European Analysis. Research was completed on 14 April 1983. Questions and comments may be addressed to Chief Economic Issues Branch,

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Import Trends

EC and US imports from the Third World rose rapidly during the 1970s. EC imports jumped from \$21.3 billion in 1970 to \$158.1 billion in 1980, while US imports went from \$10.3 billion to \$117.8 billion. Naturally most of the increase was accounted for by rising prices for oil and other energy products.

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Non-energy imports experienced steady growth throughout the decade as well. EC non-energy imports from developing nations rose at an average annual rate of 17 percent during the 1970s expanding from \$12.7 billion in 1970 to \$60.2 billion in 1980. These imports as a share of total EC non-energy imports reached 12 percent in 1970 and have not been above that level since; the current share held by LDCs is just under 10 percent. If intra-Community trade -- which accounts for roughly half of total EC trade -- is excluded, the LDC share of non-energy EC imports increases from 25 percent in 1970 to a peak of 27 percent^{25X1} in 1977 and dropped back to about 24 percent last year.

US non-energy imports from LDCs increased from \$8.4 billion in 1970 to \$47.6 billion in 1980, an annual average advance of 19 percent. Non-energy imports from LDCs as a share of total US non-energy imports increased from 23 percent in 1970 to a peak of 28.3 percent in 1980^{25X1} and has remained at roughly that level since.

While EC non-energy imports from developing nations surged during the 1970s they declined in 1981 due to a combination of factors. In 1981 the dollar appreciated by about 20 percent against the major West European currencies. At the same time real GNP in the Community fell by about 0.5 percent -- by comparison the US economy expanded by 2.3 percent. Increased protectionism also may have played a role in the decline. The EC has been increasingly relying on voluntary export restraint agreements with supplier countries to limit access to the EC market. The Community's arrangement with Brazil and South Korea to limit their steel exports is a prime example. Individual EC members also apply non-tariff barriers on imports of footwear, watches, toys, radios, televisions, and other consumer electronics. France and Italy lead with controls on 121 products followed by Britain with 65 and West Germany with 31.

Although the European Community and the United States both imported about the same dollar value of non-energy products from the Third World -- roughly \$50 billion each -- in 1981 the composition of imports differed. Agriculture and raw materials accounted for about 57 percent of EC non-energy imports from LDCs in 1981. About half of the more than \$27 billion worth of agriculture and raw material imports, mostly coffee, cocoa and

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grain, came from Latin America. Among the LDCs, the Far East is the largest supplier of non-energy products to the EC -- accounting for 35 percent of the Community's non-energy imports from the Third World. If energy is included, the Middle East is the largest source of EC imports from LDCs because the Community's oil imports are so large. 25X1

On the other hand, US non-energy imports from LDCs are primarily made up of manufactures -- 63 percent of the total -- and tend to be heavily concentrated in the Newly Industrialized Countries (NICs) -- Brazil, Mexico, Taiwan, Singapore, South Korea, and Hong Kong. The NICs account for about 63 percent of US non-energy imports from LDCs with Taiwan alone accounting for 26 percent of NIC exports to the US. On a regional basis the Far East -- consisting primarily of ASEAN countries and Asian NICs -- is the largest supplier to the US among LDCs with a 53 percent share. If oil is included Latin America led by Mexico and Venezuela accounts for the largest share, about one-third, of US Third World imports. 25X1

EC Trade Policy Towards LDCs

The Community has special trade relations with a variety of LDCs and allows varying degrees of preferential access to its markets. The most preferential arrangement is granted to those countries which are former colonies of individual EC members. EC ties with LDCs are closest with Africa and were originally embodied in the Yaoundé Conventions signed in 1963 and 1969. This arrangement provided aid and duty-free access to EC markets for a number of manufacturing and agricultural goods. Britain's entry into the EC in 1973 added to the Community's bundle of ex-colonies, especially in the Caribbean and Pacific regions. To accommodate these countries and to expand the scope of the convention, a new deal was signed at Lomé, the capital of Togo, in 1975 and extended in 1979; the list of signatories to the Lomé Convention now includes 63 countries -- known as the African, Pacific, and Caribbean countries (ACP). At French insistence, however, some of Britain's former colonies -- such as India and its neighbors -- were excluded from Lomé agreements. 25X1

Like the Yaoundé Convention, Lomé is based on the twin pillars of trade and aid. According to the EC, 99 percent of all goods produced by ACP countries are allowed duty-free access. The remaining one percent primarily consists of agricultural goods in direct competition with EC-produced items protected by the Common Agricultural Policy. A special arrangement exists for sugar imports from the ACP countries to offset the loss of Commonwealth privileges by ex-British colonies. The EC guarantees to buy 1.4 million tons of raw sugar a year from the ACP producers at high EC prices, however, the ACP countries argue

that the EC is unwilling to pay them the same price the Ten pay to their own producers. Total aid to the ACP countries over the 5 year life of the current convention (expiring in March 1985) is \$5.5 billion at 1982 exchange rates with 65 percent taking the form of grants and the remainder as low interest loans. 25X1

The most innovative aspect of the Lomé convention is the export earnings stabilization program, known as Stabex. The program provides financial assistance to make up for the loss of export earnings from any of 44 listed commodities -- mostly agricultural goods and raw materials. To qualify for Stabex aid a commodity must account for at least 6 percent of the country's total export earnings, or 2 percent in the case of the poorest ACP countries. Also the drop in export earnings must be at least 6 percent (2 percent for the poorest countries) below the previous year's level. Although the 1980-85 Stabex program was allotted \$540 million in funds, it is already running short of cash because of the 1981 collapse of world commodity prices. The Community spent \$134 million or about 25 percent of Stabex's budget in 1981 alone and because of budgetary problems paid for only half the claims submitted. 25X1

Third World countries not included in the Lomé accord have either separate bilateral arrangements with the EC or fall under the EC's Generalized System of Preferences (GSP). The Mediterranean Arab countries of North Africa -- Morocco, Algeria, Tunisia, Egypt, Jordan, Syria, and Lebanon -- along with Israel receive duty-free access to the EC for their manufactured exports and reduced tariffs on some agricultural goods. The remaining LDCs are covered by the GSP. Under this program which applies to 115 countries, 20 percent of agricultural products are given duty-free access while the remainder receive tariff reductions of 20-60 percent. Manufactured imports are allowed duty-free access but are held in check by quotas. These quotas are changed annually and in the past have been used to protect domestic manufacturers. Manufactured imports are subdivided into sensitive and non-sensitive products. Quotas for sensitive items -- such as steel, footwear and leather products -- are determined by each individual country subject to EC approval, while imports of non-sensitive products are controlled at the Community level. For sensitive products the reintroduction of the tariff rate is automatic and immediate as soon as the quota limit is reached. To promote export opportunities of the poorer LDCs, the Community permits imports to exceed the quota by a large margin before it applies duties. 25X1

The US Generalized System of Preferences

The US GSP does not greatly differ from that of the EC. Presently the number of beneficiaries of the US GSP totals 140

and the US allows duty-free access to both agricultural and manufactured products. One unique characteristic of US preferences is the "competitive need" provision which enables particular products from individual countries to be excluded. The competitive need provision is intended to provide an incentive to LDCs to diversify their exports. Under this provision a developing country loses preferential treatment with respect to a particular product if its exports of this good during one year exceed 50 percent of total US imports of the product. An export item from an individual country also may be excluded if its value exceeds \$50.9 million in a given year. The value limit was set originally at \$25 million in 1974 but has been raised in line with rising US GNP. The competitive need provision is not applied if the product in question is not produced by a US manufacturer.

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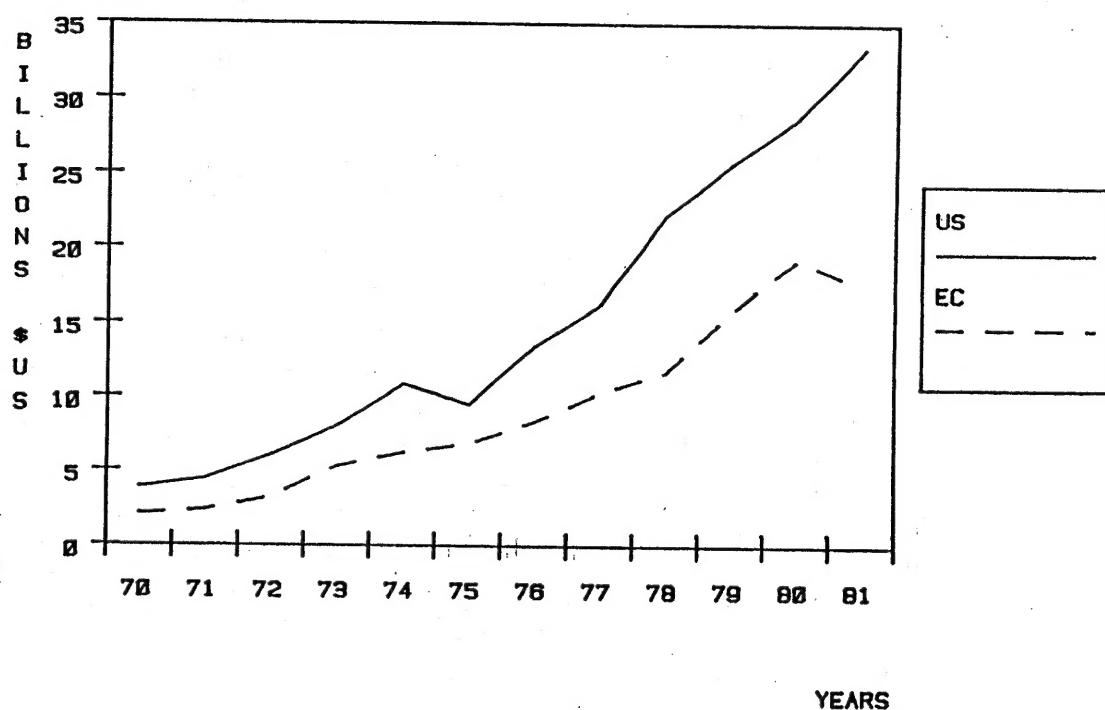
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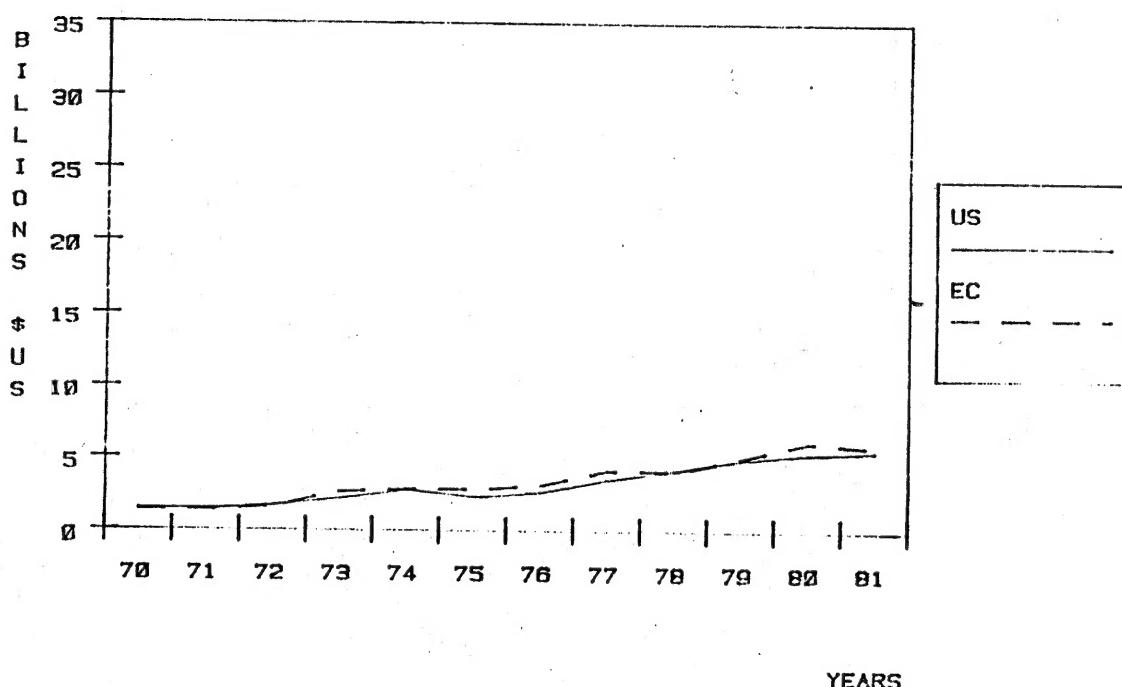
US-EC: NON-ENERGY IMPORTS FROM THE NICS

IN BILLIONS \$US



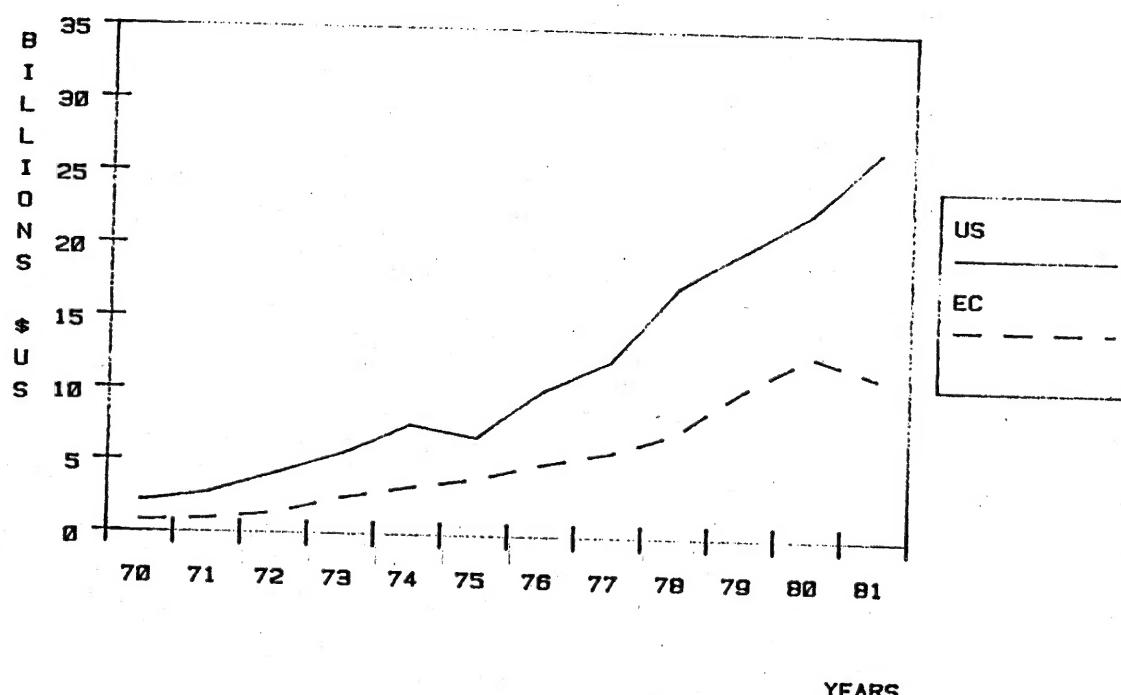
US-EC: FOOD & RAW MATERIAL IMPORTS FROM THE NICS

IN BILLIONS \$US



US-EC: IMPORTS OF MANUFACTURES FROM THE NICS

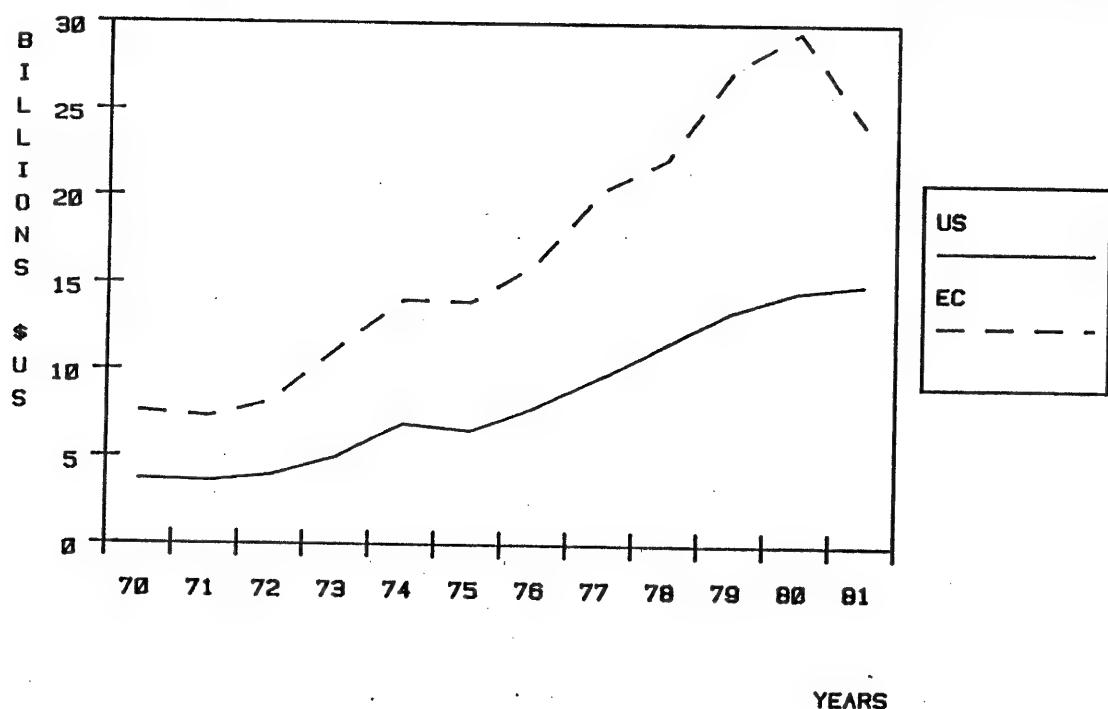
IN BILLIONS \$US



US-EC: NON-ENERGY IMPORTS FROM NON-OIL LDGS

(EXCLUDING THE NEWLY INDUSTRIALIZED COUNTRIES)

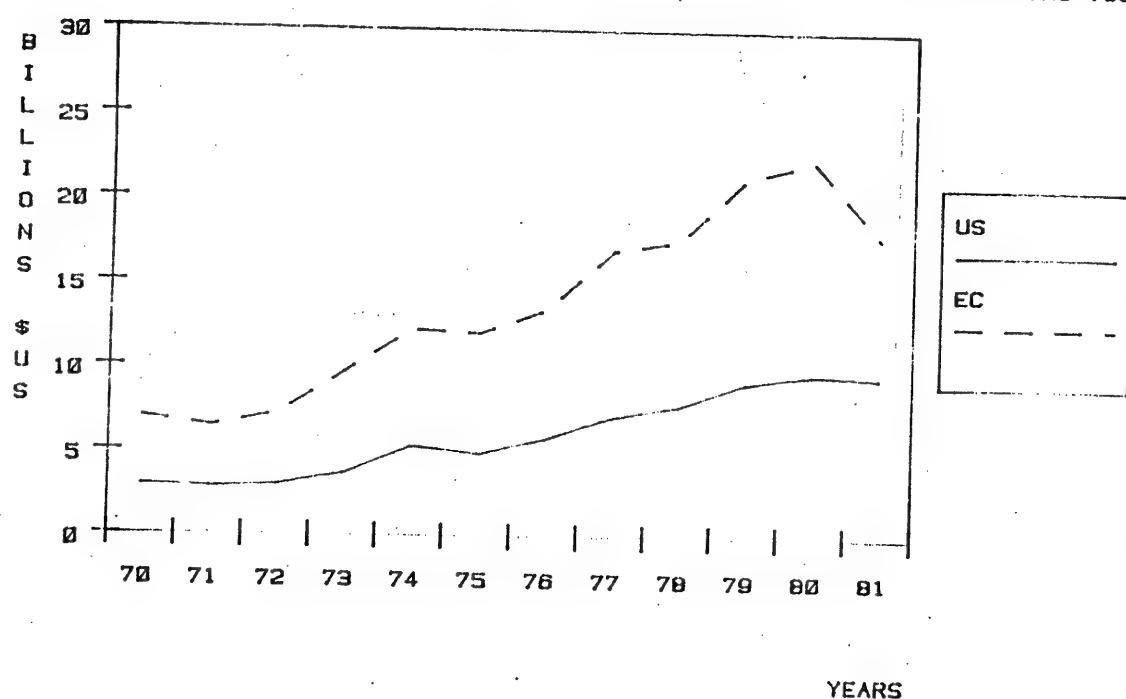
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US-EC: FOOD & RAW MATERIAL IMPORTS FROM NON-OIL LDCS

(EXCLUDING THE NEWLY INDUSTRIALIZED COUNTRIES)

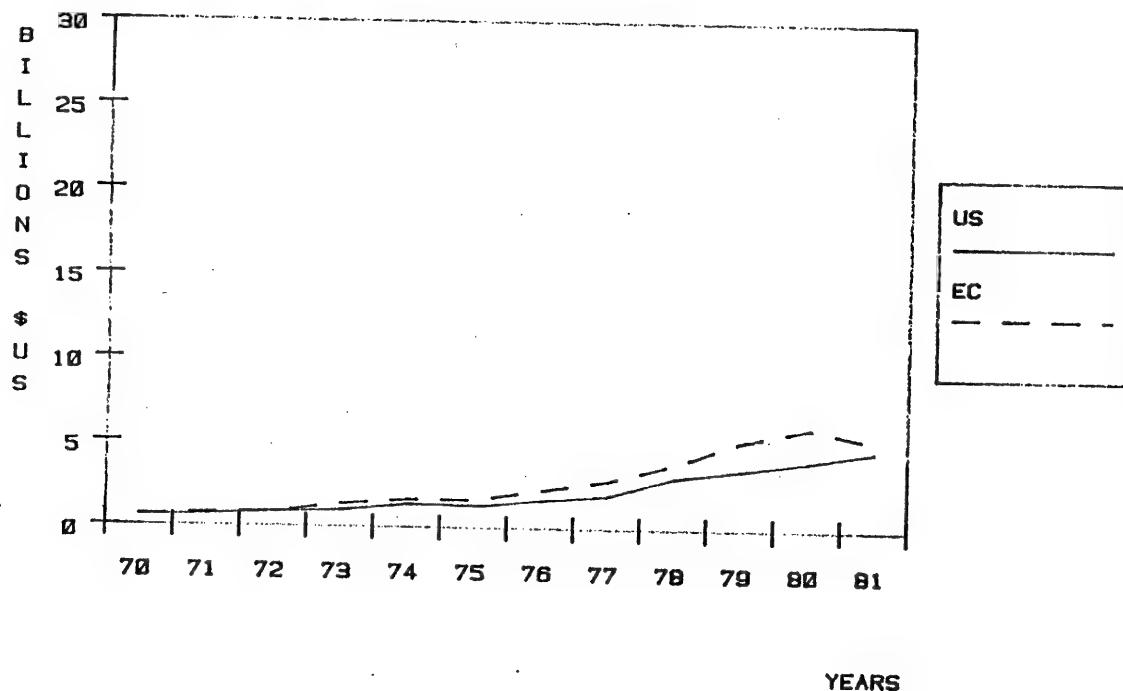
IN BILLIONS \$US



YEARS

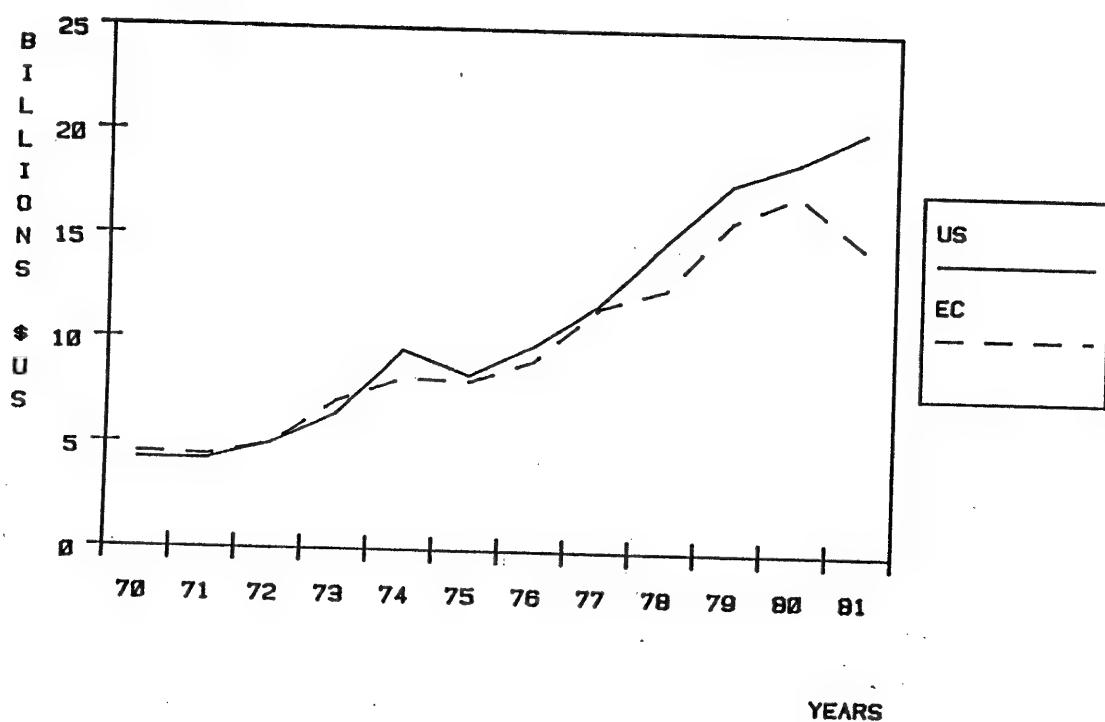
US-EC: IMPORTS OF MANUFACTURES FROM NON-OIL LDCS
(EXCLUDING THE NEWLY INDUSTRIALIZED COUNTRIES)

IN BILLIONS \$US



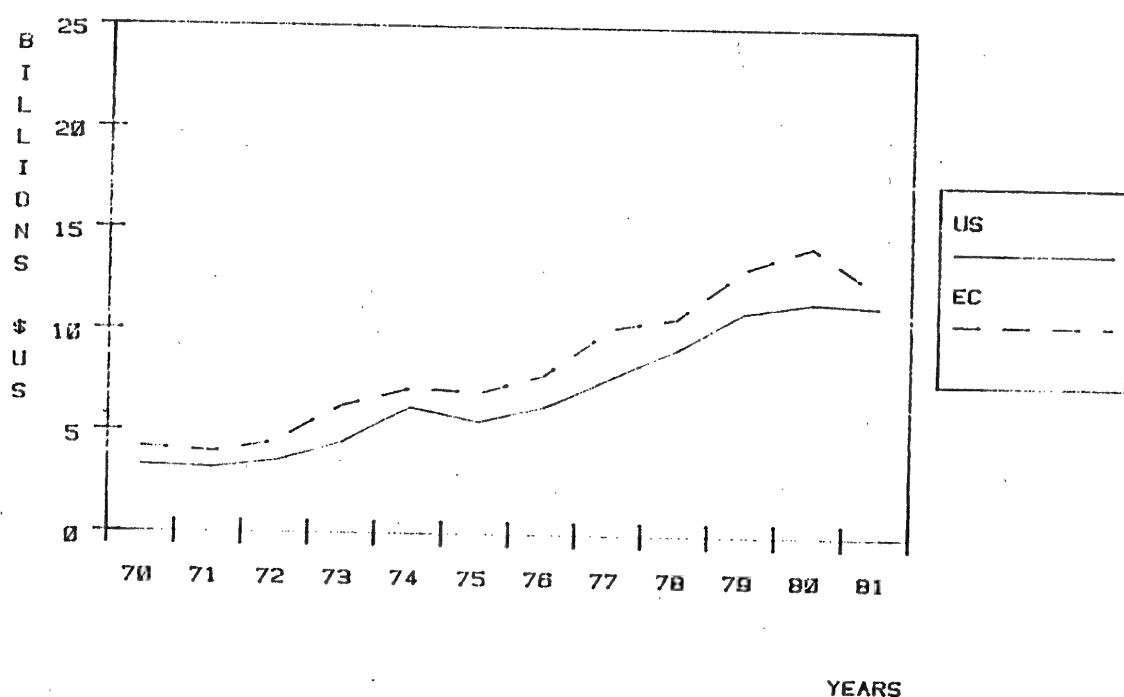
US-EC:NON-ENERGY IMPORTS FROM LATIN AMERICA

IN BILLIONS \$US



US-EC: FOOD & RAW MATERIAL IMPORTS FROM LATIN AMERICA

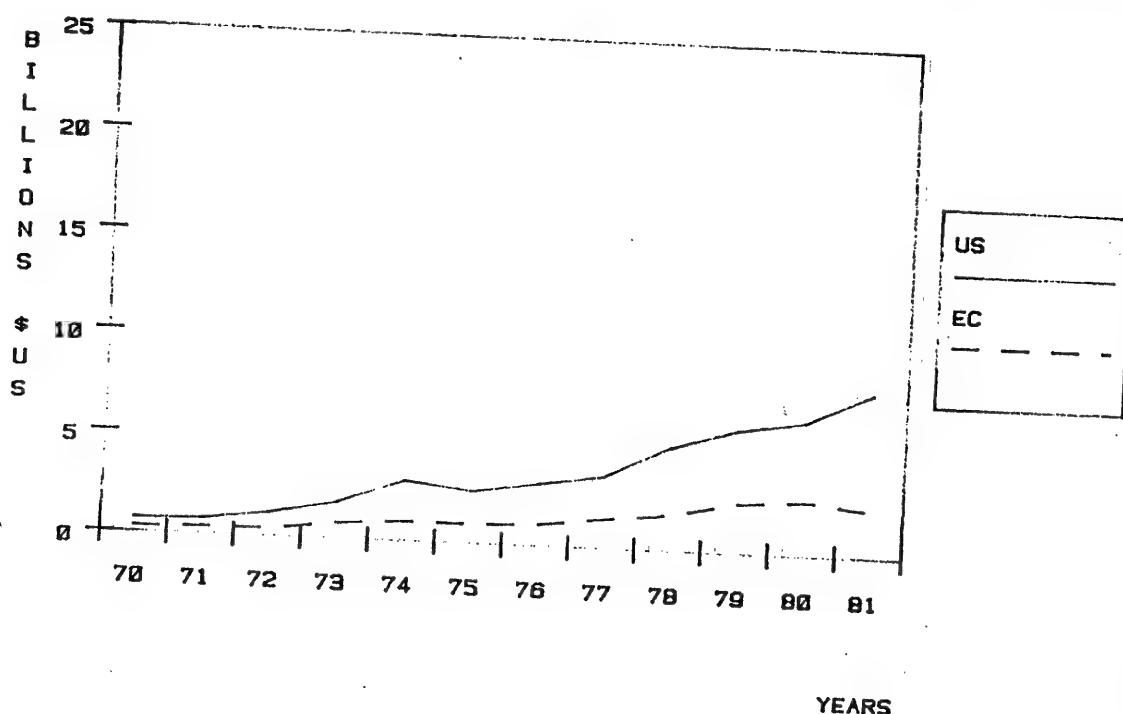
IN BILLIONS \$US



YEARS

US-EC: IMPORTS OF MANUFACTURES FROM LATIN AMERICA

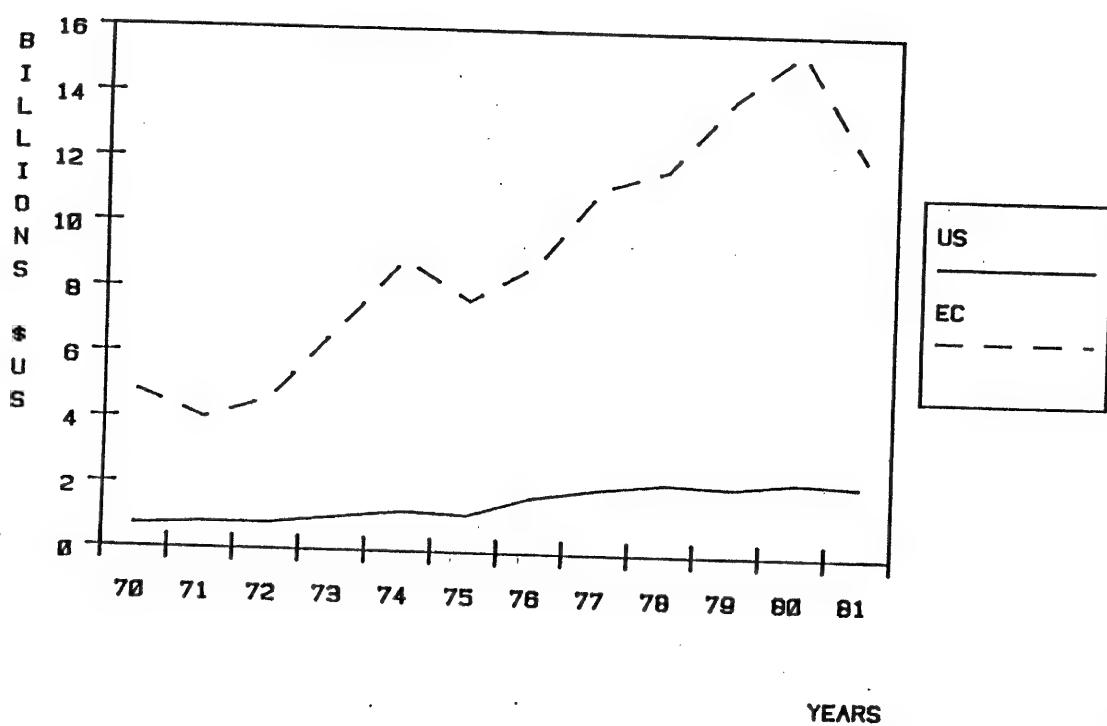
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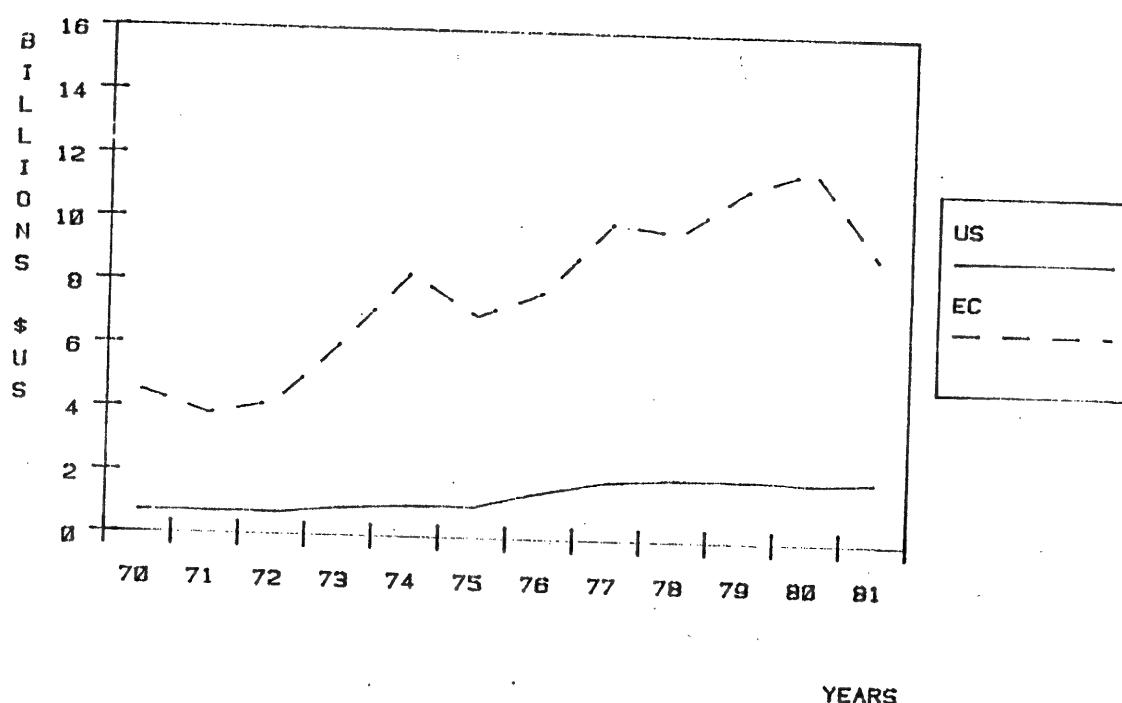
US-EC: NON-ENERGY IMPORTS FROM AFRICA

IN BILLIONS \$US



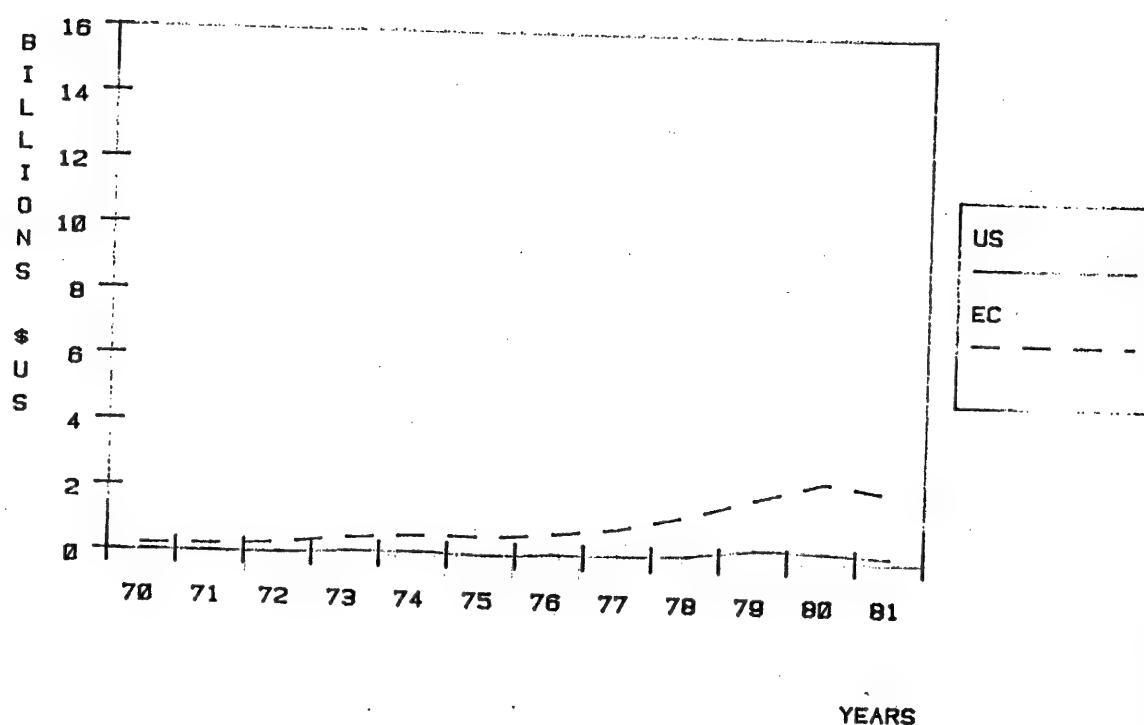
US-EC: FOOD & RAW MATERIAL IMPORTS FROM AFRICA

IN BILLIONS \$US



US-EC: IMPORTS OF MANUFACTURES FROM AFRICA

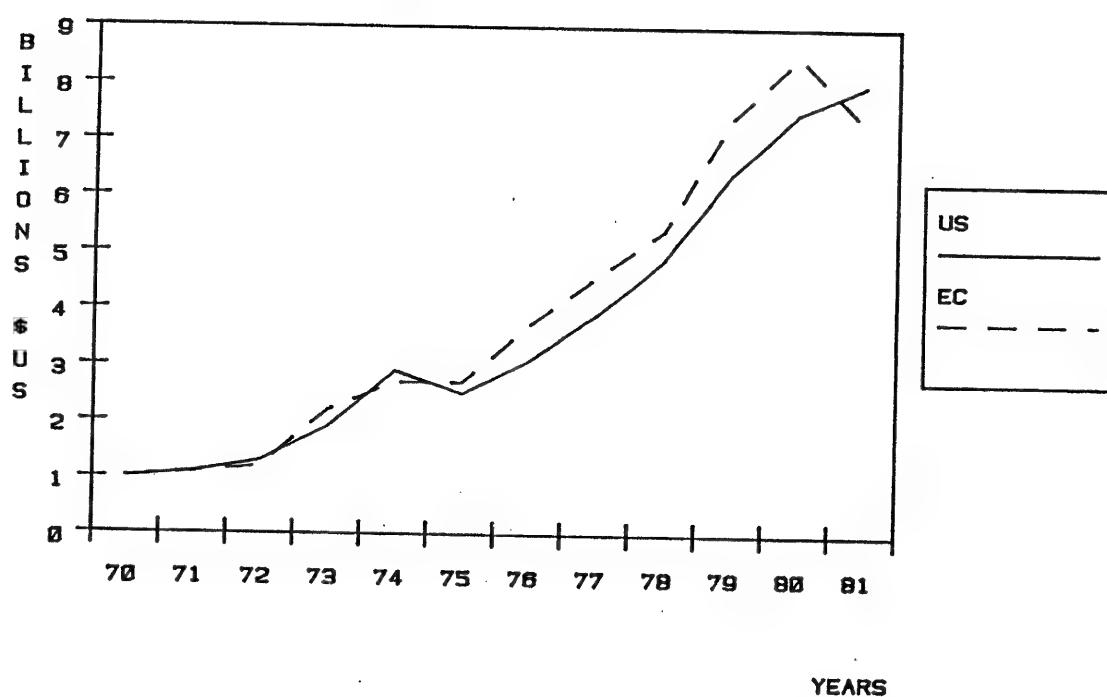
IN BILLIONS \$US



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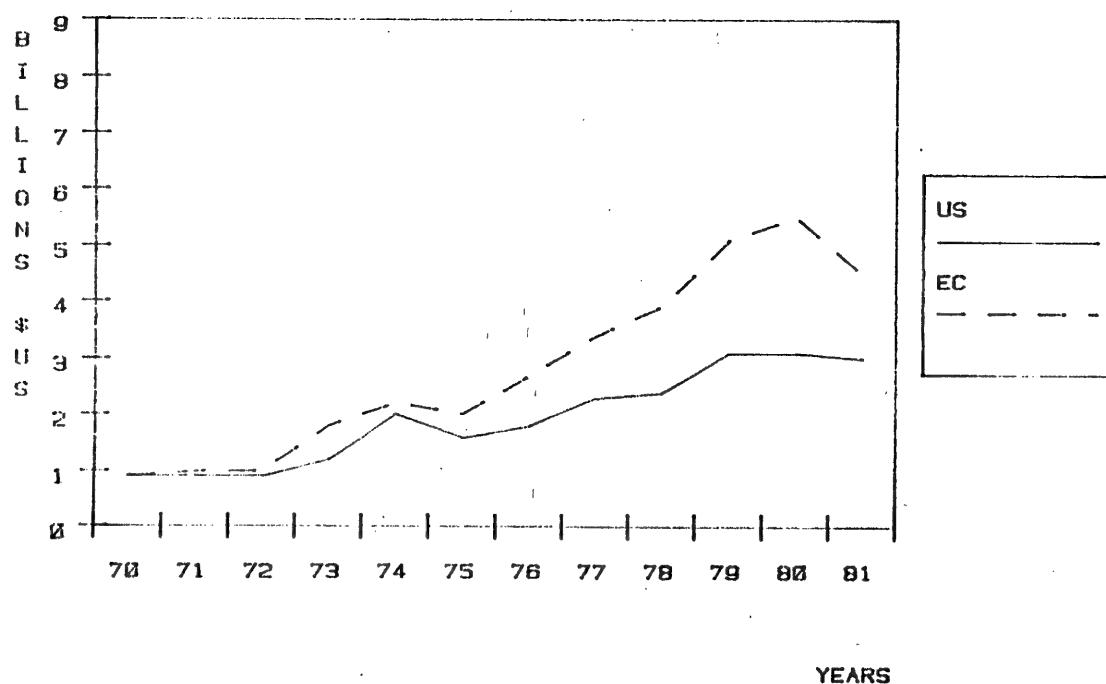
US-EC:NON-ENERGY IMPORTS FROM ASEAN

IN BILLIONS \$US



US-EC: FOOD&RAW MATERIAL IMPORTS FROM ASEAN

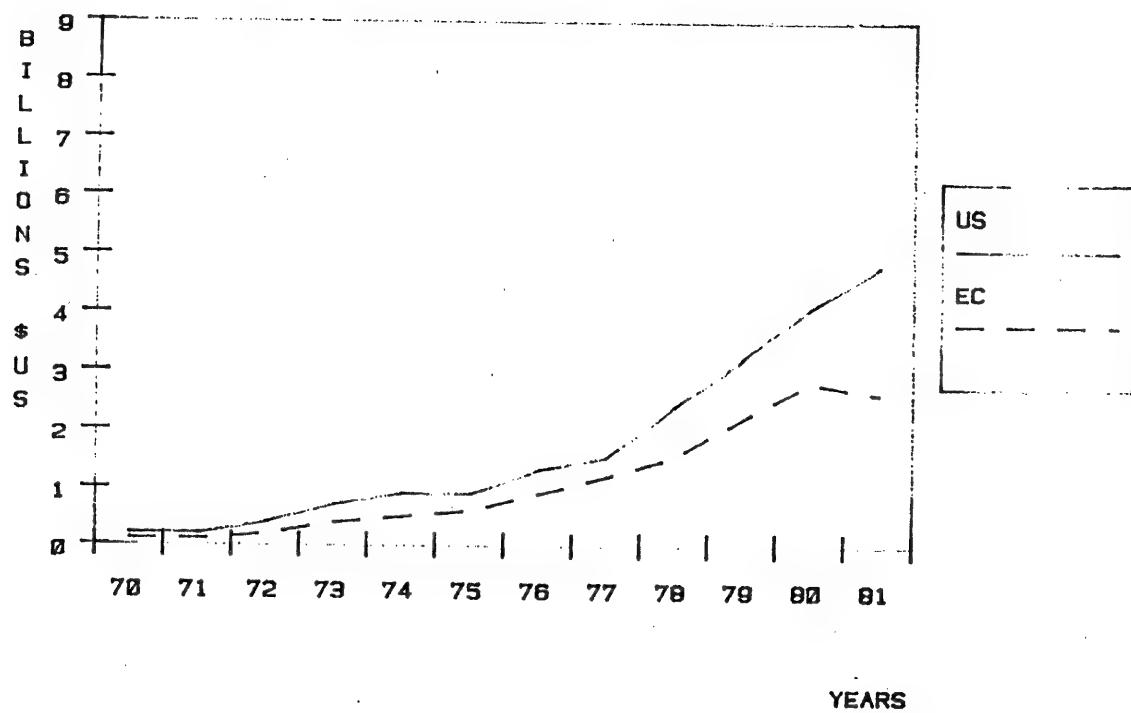
IN BILLIONS \$US



YEARS

US-EC: IMPORTS OF MANUFACTURES FROM ASEAN

IN BILLIONS \$US



YEARS

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<u>Commodity</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	Million US \$
TOTAL	2152	2435	3215	5304	6367	6946	8392	10312	11649	15823	19978	19097	
FOODSTUFF	812	904	1139	1888	1979	2070	2159	3078	2861	3374	3776	3719	
RAW MATERIAL	478	424	503	767	936	840	1052	1138	1212	1675	2304	2030	
FUELS	5	2	3	6	68	22	4	.1	9	29	734	1649	
MANUFACTURES	821	1042	1513	2562	3296	3913	5027	5910	7311	10369	12700	11257	
OTHER	36	62	57	81	89	100	150	184	256	376	463	441	

UNITED STATES: Imports From NICS

<u>Commodity</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	Million US \$
TOTAL	3837	4431	6122	8117	10848	10028	13891	17340	23083	28961	35531	40841	
FOODSTUFF	1186	1233	1484	1732	2164	1760	2190	3023	3453	3793	4131	4249	
RAW MATERIAL	226	203	257	430	631	573	562	587	773	1145	1140	1242	
FUELS	63	30	31	50	77	489	525	1027	1604	3305	6860	7451	
MANUFACTURES	2192	2761	4111	5628	7621	6809	10194	12230	17369	20024	22557	26947	
OTHER	170	204	239	277	355	397	420	473	604	694	843	952	

¹ Newly industrialized countries — Mexico, Brazil, Singapore, Hong Kong, South Korea, and Taiwan.

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EUROPEAN COMMUNITY: Imports From Other Non-Oil LDCs¹

Commodity	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	Million US \$
TOTAL	7827	7524	8342	11427	14533	14660	16755	20802	22861	20699	32070	26730	
FOODSTUFF	3845	3872	4342	5744	6765	7267	8337	11809	12453	14061	13785	11340	
RAW MATERIAL	3100	2558	2827	3926	5463	4746	5117	5163	5115	7236	8529	6496	
FUELS	183	225	175	222	487	768	668	506	693	1392	2608	2563	
MANUFACTURES	617	774	884	1393	1665	1697	2310	2889	3867	5171	6006	5254	
OTHER	82	95	114	142	153	182	323	442	734	839	1142	1077	

UNITED STATES: Imports From Other Non-Oil LDCs¹

Commodity	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	Million US \$
TOTAL	4344	4387	4833	6370	11204	10236	11213	13678	15508	19197	22335	22500	
FOODSTUFF	2103	2108	2213	2753	3805	3724	4303	5310	5600	6725	6663	6424	
RAW MATERIAL	838	704	769	967	1482	1192	1528	1786	2171	2491	3054	3043	
FUELS	679	752	820	1356	4288	3760	3322	4103	4028	5783	7770	7522	
MANUFACTURES	616	656	865	1053	1382	1268	1730	2039	3113	3629	4147	4714	
OTHER	108	167	166	241	247	292	330	440	506	569	701	797	

¹ Excluding the newly industrialized countries.

EUROPEAN COMMUNITY: Imports From LATIN AMERICA

commodity	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	Million US \$
TOTAL	4944	4910	5305	7591	9156	9309	10368	12557	13776	18084	22035	20848	
COOLSTUFF	2594	2706	3172	4505	4740	4854	5300	7496	7815	9187	9047	7926	
AW MATERIAL	1611	1299	1360	1809	2478	2182	2570	2679	2857	4047	5220	4164	
FUELS	392	468	375	446	917	1162	1254	835	1125	2175	4842	6173	
MANUFACTURES	324	401	444	781	961	1037	1150	1474	1853	2502	2609	2331	
OTHER	23	36	34	50	60	74	94	73	126	173	237	254	

UNITED STATES: Imports From LATIN AMERICA

commodity	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	Million US \$
TOTAL	5038	6036	6997	9330	10417	16069	17127	20948	2410	31982	38393	40401	
COOLSTUFF	2414	2424	2773	3309	4375	4000	4805	6155	7003	8259	8545	8105	
AW MATERIAL	918	757	803	1154	1795	1474	1513	1692	2219	2721	2951	3198	
FUELS	1647	1016	1968	2830	8930	7654	7322	9018	9228	14317	19543	20122	
MANUFACTURES	697	842	1248	1801	3022	2576	3127	3644	5130	6083	6639	8111	
OTHER	162	197	205	236	295	365	360	439	521	602	715	865	

EUROPEAN COMMUNITY: Imports From MIDDLE EAST

<u>Commodity</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	Million US \$
TOTAL	5274	7563	8859	12989	32886	32263	36629	37998	38174	49533	68598	64423	
FOODSTUFF	130	137	133	226	184	153	254	303	250	330	338	293	
RAW MATERIAL	231	233	190	319	300	240	333	349	393	506	800	613	
FUELS	1745	6962	8250	12040	31923	31420	35507	36631	36296	46907	65486	62237	
MANUFACTURES	164	220	276	383	376	420	500	597	1175	1090	1285	863	
OTHER	4	10	10	13	23	30	35	118	60	700	689	417	

UNITED STATES: Imports From MIDDLE EAST

<u>Commodity</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	Million US \$
TOTAL	223	422	552	907	4454	5115	8633	12407	12276	15897	17867	18717	
FOODSTUFF	20	26	29	51	58	60	47	81	71	99	34	36	
RAW MATERIAL	27	28	40	45	52	50	5	57	53	59	21	27	
FUELS	139	332	430	744	4265	4914	8483	12134	11981	1558	17632	18468	
MANUFACTURES	16	21	34	50	53	55	52	43	62	96	99	112	
OTHER	13	15	19	17	26	36	46	92	109	85	81	74	

EUROPEAN COMMUNITY: Imports From AFRICA

<u>Commodity</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
TOTAL	8275	8014	8615	11983	21918	17386	19407	21956	22767	32173	42724	34492
FOODSTUFF	2013	1799	2051	2790	3454	3542	4125	6178	6126	6350	6456	4780
RAW MATERIAL	2481	1977	2190	3348	4803	3489	3679	3789	3550	4782	5353	4260
FUELS	3527	3969	4027	5288	13002	9648	10575	10705	10923	18218	27184	22314
MANUFACTURES	223	238	296	515	617	552	728	921	1333	1860	2426	2116
OTHER	31	31	51	42	42	155	300	363	835	963	1305	1014

UNITED STATES: Imports From AFRICA

<u>Commodity</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
TOTAL	792	925	1237	1931	5903	7350	11537	15458	15297	22789	29525	24942
FOODSTUFF	542	569	524	609	773	689	997	1364	1475	1173	1263	1260
RAW MATERIAL	117	136	154	203	278	306	522	508	536	521	684	746
FUELS	84	158	401	879	4690	6218	9875	13425	13049	20653	27213	22706
MANUFACTURES	30	26	39	62	73	40	73	95	138	346	259	147
OTHER	19	36	39	98	89	97	70	66	99	96	106	83

~~UNITED COMMONWEALTH~~¹ IMPORTS FROM ASEAN

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Million US \$

<u>Commodity</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
TOTAL	998	1080	1251	2205	2765	2737	3724	4748	5550	7609	8790	7551
FOODSTUFF	373	472	519	728	998	1175	1367	1842	2193	2701	2705	2561
RAW MATERIAL	541	499	524	1027	1204	869	1372	1539	1684	2451	2811	1892
FUELS	8	7	21	16	28	30	31	113	148	183	315	269
MANUFACTURES	64	86	171	408	513	625	912	1208	1458	2175	2753	2639
OTHER	10	16	16	26	22	38	42	46	67	99	206	188

UNITED STATES: Imports From ASEAN

Million US \$

<u>Commodity</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
TOTAL	1109	1205	1442	2121	4290	4501	5812	7125	8418	10002	12943	14042
FOODSTUFF	454	502	479	623	1134	905	914	1161	1124	1357	1423	1431
RAW MATERIAL	427	374	413	555	828	656	860	1142	1326	1754	1710	1524
FUELS	54	83	137	228	1394	2008	2705	3201	3476	3586	5427	6019
MANUFACTURES	158	223	378	676	887	873	1251	1539	2370	3152	2093	4800
OTHER	16	23	35	39	47	59	82	82	122	153	290	268

¹ Singapore, Thailand, Philippines, Indonesia, and Malaysia